HOW MUCH CREDIT OBLIGATION SHOULD WE INCUR?

Every once in a while some writer comes up with a formula to guide a family in determining what percentage of its income should go for rent and other necessities and finally what percentage of the weekly or monthly paycheck can be set aside safely to meet installment or credit commitments. The more we study these hard and fixed tables or formulas, the more sure we are they are practically useless except as a rule-of-thumb guide.

The only sure-fire way to determine how much it is safe to obligate ourselves to pay is first to learn how to make up an accurate, sensible personal or family budget.

While many a family that has never made a budget is using credit to full satisfaction and paying all accounts just as agreed upon, it is extremely good training in financial management to know by experience ***how to budget***.

Budgets help you to know how much is left after paying the house payment, utilities, food, clothing, gas, etc. You can then determine if you can buy that new car or furniture and be able to afford the monthly payment.

Our own carefully planned budget will tell us, as no set formula ever could, how much we can safely pay each month for installment credit. See our brochure *What is a Budget?*

WHAT SHOULD THE DOWN PAYMENT BE?

After you have decided you can afford to make a purchase on credit, you will have to decide how much you have available to make as a down payment. The best thing to do is to make as substantial a down payment as possible without upsetting the family's budget. The larger the down payment, the smaller the unpaid balance and the finance charge will be.

There is, however, no purpose in making a down payment so large that it robs the food budget or makes it difficult to meet the next regular monthly payment when it comes due. It would be better to make a small down payment on a purchase than to borrow money to make a larger deposit. Here nothing would be accomplished except to muddy the waters with the problem of repaying the loan as well as making payments on the installment contract.

There may even be a good reason to purchase on the installment plan without any down payment, if possible. You probably would not put a down payment on a furniture purchase. You would figure on how much you would have to pay for the term of the account and if that payment fits in your budget, you can make the purchase without a down payment.

Generally speaking, a down payment should be at least 10%, but this is "rule-of-thumb, for it should often be 25% or even more. If the seller requires a specific down payment, make sure you can make it without a strain on your budget before you make your purchase.

Remember, the larger the down payment, the more quickly, easily, and cheaply the rest of the account will pay out.

HOW LONG SHOULD WE TAKE TO PAY LOANS AND ACCOUNTS?

We should not still be making payments on a purchase or a loan after we have ceased to benefit from it. There is no fixed rule to follow and no one can determine for another how long he should take to pay for a purchase. It is important to consider:

- ✓ What monthly payments will fit into the family budget?
- ✓ How long will the product or service purchased last?
- ✓ How long will you remain interested in the product?
- ✓ How long will your income remain steady or increase?
- ✓ The shorter the term of payments the less finance charges.

Contract limits normally are longer as the size of the purchase or loan increases. Contracts for furniture can range from 12 to 24 months while auto contracts can range from 48 to 60 months.

MARKET CONDITIONS THAT AFFECT TERMS WE ARE OFFERED.

The merchant or lender is limited by market conditions when he considers what terms he can extend safely and intelligently. In our "free economy" there are in the background governing factors that influence quite a bit the amount of funds available for consumer credit use. The Federal Reserve System sets rates at which bankers themselves can borrow funds.

The banks in turn then set the rates of interest at which merchants and the lenders of smaller amounts can get the funds they need. The banking system in this way makes it easier or more difficult, cheaper or more costly for businesses and consumers to borrow.

The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

- Answers to Credit Problems
- Applying for Credit
- At Home Shopping Rights
- Bankruptcy Facts
- Buried in Debt
- Car Financing Scams
- Charge Card Fraud
- Choosing A Credit Card
- Co-Signing
- Credit and Divorce
- Credit and Older Consumers
- Deep in Debt?
- Equal Credit Opportunity
- Fair Credit Reporting
- Fair Debt Collection
- Gold Cards
- Hang up on Fraud
- High Rate Mortgages
- Home Equity Credit Lines
- How to Avoid Bankruptcy
- Indiana Uniform Consumer Credit Code
- Look Before you Lease
- Mortgage Loans
- Repossession
- Reverse Mortgage Loans
- Rule of 78s – What is it?
- Scoring for Credit
- Shopping for Credit
- Using Credit Cards
- Variable Rate Credit
- What is a Budget?
- What is the DFI?

Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information.

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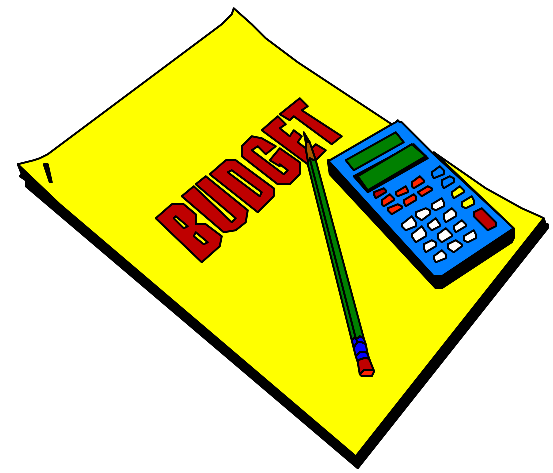
YOUR CREDIT CAPACITY



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